THE PANIC AS A WORLD PHENOMENON

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It might very properly be urged that the present is too early a date for us to draw wise conclusions from the lessons of the recent financial crisis. Indeed, one can hardly speak of it, as I did just now, as the recent crisis. It is the present crisis. If we are not well in the midst of it, we at least continue to be surrounded with many unpleasant features that have formed a part of that crisis. We are still in a situation where a great majority of the banks of the country have practically suspended cash payments.

Domestic exchanges are still seriously disorganized. After the most heroic measures for relief, taken by the Treasury and by banks generally, we continue to be surrounded by abnormal conditions, and the day is somewhere in the future when we can look back with anything like academic interest and comment with intelligence on the true lessons which have been taught by this extraordinary financial event.

Although it may be too early to speak with certainty about these lessons, there is good excuse to give consideration to the phenomena of the crisis, even at as early a date as the present. Sufficient excuse may be found in the profound necessity which exists for an understanding of the causes and a comprehension of the principles which must underlie proper remedies for such a financial panic. There has never been a time in our political history, I believe, when there was more necessity for a broad educational movement in relation to financial affairs, than at the present time. The necessity for education so that the public will comprehend the underlying principles governing sound banking and a proper currency is as great to-day as was the necessity for education in regard to the standard of value ten years ago.

The causes of the remarkable financial disturbances which we have been experiencing are more or less obvious. Still, men are not agreed upon them nor upon the varying degree of importance that should be allotted to those causes that are obvious. Some

men will trace the roots of the trouble to the policies of the President of the United States. Some will trace them directly to the activities of the "gamblers" of Wall Street, as they choose to call that portion of the community. Now the truth lies at neither of these extremes nor indeed does it lie between them. It is much broader, deeper and more comprehensive than either of these suggestions.

If I were to attempt in just a word to outline the causes as I see them, I should say that we must run back for some of the roots to the terrific losses which the world's capital experienced as a result of the Boer War, costing as it did one billion of dollars, the Japanese-Russian War, which cost one and one-quarter billions, and the losses of the San Francisco disaster, which footed another half billion. Here we have figures of nearly three billions of dollars direct loss to the world's capital. That loss too, came at a moment when the world was just entering upon a most intense industrial activity, an activity which created what was, I presume the greatest demand for capital that the world has ever known.

The world has thus, in an unprecedented degree, been using of its liquid capital. We have seen railroads and other corporations inexorably pushed to build new lines, to add to their equipment and to extend plants. But although the corporations were forced to make these expenditures by the demands which broadening industry and growing commerce made imperative, they became at last, owing to the exhaustion of the world's investment fund, unable to sell securities to provide money for their forced expenditures. They were unable to sell bonds, even though the security that was offered was wholly above criticism. The investment capital of the world became well nigh exhausted. That phase of the situation was by no means confined to America. It was international in its origin and world-wide in its effect.

This financial crisis, however, has by no means been altogether a matter of money. It has, in large measure, been a matter of what was in men's minds. I would again go back a few years in search for the roots of our present difficulties and note that we have had a period of so-called "muck raking." A period in which there has been the most general criticism of leaders, both financial and political. Now, to tell the truth, we have had a good deal of honest reason for criticism; at the same time, it is unquestionably true

that much of the criticism has been unfounded. There has, however, been brought forward evidence enough to show that no small measure of criticism was merited.

The financial world approached the fall months of 1907 with a situation in which investment capital was practically exhausted and at a time when the confidence of the people in financial leaders had been severely shaken. It was not alone the confidence of the people in financial leaders that had been shaken, however. The confidence of the financial leaders, the confidence of investors and of men who control capital had been shaken in the people. The confidence of those men, in the wisdom of legislation, in the fairness of legislators, in the high-mindedness of courts and in the right spirit and justice of public opinion, has been seriously shaken. We approached these fall months then with a situation where confidence was lost on the part of the people in the financial leaders and was shaken on the part of those who directed large corporate affairs, in the stability of conditions such as only an honest and fair public opinion can insure.

We approached these months with a banking and currency situation in which any withdrawal of money from the banking centers, even such a withdrawal as comes with the ordinary legitimate demands for the crop movement, meant, because of a bad banking and currency system, a withdrawal of reserves from the banks. We approached these trying months with a currency system which had in it no expansive element. If more circulation were to be needed, there were only three places it could come from. It might come from abroad in the shape of gold imports, it might come from the treasury in the form of additional public deposits, or failing a sufficient supply from these two sources, it must come from the reserves of the banks.

We have been preaching about the necessity for an expansive currency for years. We have now had an illustration of the need of it, an illustration of the danger which we run to be without it, which is going to go farther to convince the people that we require legislation, than have all the meetings and all the addresses which have been made on this subject in a great many years.

Of course, if one were to trace more minutely the causes of the financial upheaval, he might find the direct, immediate cause was intimately related to trust company development. A great

number of trust companies have been organized in the last few years. Bank depositors have been very greedy to obtain high interest rates. The trust companies, with small reserve requirements, were in a position to pay higher interest rates than did the commercial banks. In some cases they paid rates that were too high, and in order to pay such rates they engaged their capital in a way which was not the most conservative. That made the situation such, taken in connection with the general shock to confidence which I have referred to, that when a breath was raised against the credit of trust companies, it found quick lodgment in the minds of the people and depositors, and made those suspicions promptly felt by large withdrawals of deposits and a considerable hoarding of cash. The hoarding, indeed, was not confined to the people altogether. It soon extended to the banks themselves, and has finally become one of the most important features of the situation. This hoarding of money in excess of their normal reserve requirements, by the banks, is one of the phenomena that will deserve close attention. The remedy for it lies outside the field of an elastic currency.

Now, as we have remarked, it may be rather early for a really academic view of this crisis. Nevertheless, I believe the necessity for a study of the lessons of the crisis is so great, the need for an understanding of these lessons is so pressing, that now, while it is all fresh in our minds, is the best of all times to begin a study of the problems raised.

Recently the newspapers have contained interviews with a large number of senators and congressmen as to the course of probable financial legislation. To my mind it was shocking to read the views of many of the members of Congress. They ran all the way from those members who thought nothing at all was necessary in the way of legislation to those who wanted to have the United States Government guarantee all the deposits in all the national banks and issue $300,000,000 of greenbacks. I am ashamed to admit it, but I presume the truth is that a series of interviews with well-known bankers, interviews with men bearing the most important relation to the country's financial work, would show as great a variation of opinion as did these interviews with members of Congress. I am afraid that the bankers would show, in some cases, as great ignorance of what is needed, and as little comprehension of the principles underlying any really intelligent reform,

as our senators and congressmen. That leads me to believe that there never was a time when education of the people in the principles of banking and currency was more seriously needed. The necessity for such education is reason enough for this inquiry into the lessons of the crisis.

The one great practical lesson, of course, is going to be that some form of expansive currency, a currency which will be related in volume to the commercial needs of the country, is necessary. Whether such currency be secured as a result of an extension of the powers of the treasury or by giving the right to all national banks to issue asset currency, or by the organization of a central bank, is one of the questions which a better educated public opinion is needed to answer. Whatever the answer may finally be, there are certain principles which we must learn to recognize and to apply to all discussions of this subject of an expansive currency.

It is, perhaps, fortunate that we have had an illustration of an expansive currency in the issue of clearing-house certificates which have been put out in many cities in the form of circulating notes and which will help many to see more clearly what really is the function of an asset currency.

One of the valuable lessons which we have learned from this financial disturbance is the interdependence of financial centers upon one another. New York had shown evidences of the approaching crisis for several months. There had been disturbances in the stock market, high rates for money, low reserves and other indications of a possible period of strain, but the great West and South, with seven billions of agricultural products, said, "We are independent. We have divorced ourselves from the people of Wall Street. They may have their troubles. We are strong enough to take care of ourselves."

London, Berlin and Paris did not feel the same financial independence that was felt by Oskaloosa and Podunk. Oskaloosa and Podunk believed that the wheels of prosperity would continue to turn for them with unabated speed regardless of what happened in New York. London, Berlin and Paris were deeply concerned over the situation as it was reflected in Wall Street. Now the whole country has come to see that there is no such thing as financial independence. It took hardly twenty-four hours from the disturbance resulting in clearing-house certificates in New York for the

difficulties to become national. The West and the South, rich and independent as they are, can now see more clearly that the whole country's welfare is pretty much bound together in a financial way.

Perhaps the most significant of all the lessons of the crisis, one that will, in the end, sink more deeply into our understanding than any of the others, will come to us when we comprehend the full weight of what it means to destroy confidence; what it means to destroy the confidence of the people in the financial leaders, to destroy the confidence of capitalists in the fairness of the people as reflected in legislation and in the decisions of the courts.